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DEPARTMENT FOR AF/EX AND AF/E

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SUBJECT: ERITREA'S MINING SECTOR GENERATING INTEREST

Classified By: Ambassador Ronald K. McMullen for reson 1.4(d)

1. (SBU) MORE FOREIGN PARTNERS

The government of Eritrea has notified seven foreign mining companies that they will be awarded mineral exploration licenses contingent on final contract negotiations in mid-April. Th%kaQQJ]q (3), and Australia (1). Eritrea denied several exploration license applications, including one from an American company and an additional one from Nevsun, the Vancouver-based company exploiting the large Bisha gold, copper, and zinc deposit.

2. (C) GERMAN BANKS LOOKING AT BISHA FINANCING

German commercial bankers were in Eritrea in early March to assess the potential for a very large loan to enable the government of Eritrea to purchase equity in the Bisha mine, a billion dollar venture located in western Eritrea. Chinese banks provided Eritrea financing for the initial down payment of \$25m on a 30% equity option; the German financing, if it materializes, would enable Eritrea to complete the purchase. The German ambassador to Eritrea (strictly protect) said the German government was looking at providing backing to the potential commercial loan.

3. (C) BISHA FALLING BEHIND SCHEDULE

It is unlikely that the Canadian-Eritrean joint venture will be able to begin extraction operations at Bisha in 2010 as originally planned, according to the British manager of another foreign mining firm in Eritrea. He said uncertainties in the international capital markets, along with bureaucratic and logistical delays, would set back the commencement of mining for one year, he judged. He noted with some jealousy that Nevsun was "sitting on about a billion ounces of gold," and had wisely negotiated a front-loaded cost-recovery schedule. The mining executive also noted that this meant Eritrea would likely see nothing but minor revenue inflows from mining "until 2013 or beyond."

MCMULLEN